

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Washtenaw County Road Commission</u>	County <u>Washtenaw</u>
Audit Date <u>December 31, 2004</u>	Opinion Date <u>February 11, 2005</u>	Date Accountant Report Submitted To State: <u>March 29, 2005</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |  |   |
|--|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no                              | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input type="checkbox"/> no <input checked="" type="checkbox"/> n/a | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASL GU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

**Washtenaw County Road Commission**  
**(a component unit of Washtenaw County)**

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**Financial Report**  
**with Supplementary Information**  
**December 31, 2004**

# **Washtenaw County Road Commission**

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## Independent Auditor's Report

To the Board of Road Commissioners  
Washtenaw County Road Commission

We have audited the accompanying basic financial statements of the Washtenaw County Road Commission (a component unit of Washtenaw County) as of and for the year ended December 31, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Washtenaw County Road Commission at December 31, 2004 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Washtenaw County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Road Commissioners  
Washtenaw County Road Commission

As described in Note 1, the Road Commission implemented the retroactive reporting of infrastructure under the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2004.

*Plante & Moran, PLLC*

February 11, 2005

# **Washtenaw County Road Commission**

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## **Management's Discussion and Analysis**

As management of the Washtenaw County Road Commission, we offer the following discussion and analysis of the financial statements as an overview of the financial activities of the Washtenaw County Road Commission for the fiscal year ended December 31, 2004.

### **Overview of the Financial Statements**

Our discussion and analysis of the financial performance of the Washtenaw County Road Commission (the "Road Commission") provide an overview of the Road Commission's financial activities for the fiscal year ended December 31, 2004. Please read this in conjunction with the financial statements.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The governmental funds balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns present a short-term view of the Road Commission; they tell us how much is available for future spending. The total full accrual column is intended to present a longer-term view, and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenue, expenditures, and changes in fund balances/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns tell us how the taxpayers' money was spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

Supplementary information is also provided for additional information purposes.

### **Financial Analysis**

The net assets of the Road Commission are summarized for the purpose of determining the overall fiscal position. As shown on the net asset chart below, the Road Commission's assets exceeded liabilities by \$156,639,869 at the end of the fiscal year.

When comparing this fiscal year to the previous year, net assets have increased by \$18.6 million (page 7). This is attributed to the addition of infrastructure assets.

# Washtenaw County Road Commission

## Management's Discussion and Analysis (Continued)

A comparative analysis of the Road Commission data is presented below.

### Condensed Statement of Net Assets

	Governmental Activities	
	December 31	
	2004	2003
		(As restated) (Note 1)
<b>Assets</b>		
Current and other assets	\$ 11,154,496	\$ 10,226,869
Capital assets	<u>157,079,805</u>	<u>139,174,994</u>
Total assets	168,234,301	149,401,863
<b>Liabilities</b>		
Long-term liabilities outstanding	6,351,057	6,998,265
Other liabilities	<u>5,243,375</u>	<u>4,338,557</u>
Total liabilities	<u>11,594,432</u>	<u>11,336,822</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	151,481,579	132,104,994
Unrestricted	<u>5,158,290</u>	<u>5,960,047</u>
Total net assets	<u><u>\$ 156,639,869</u></u>	<u><u>\$ 138,065,041</u></u>

# Washtenaw County Road Commission

## Management's Discussion and Analysis (Continued)

### Condensed Statement of Activities

	Governmental Activities	
	Year Ended December 31	
	2004	2003
<b>Revenue</b>		
State aid	\$ 17,588,119	\$ 16,898,185
Federal sources	7,310,624	4,465,949
Local and other sources	9,916,156	8,666,964
Total revenue	34,814,899	30,031,098
<b>Expenses</b>		
Maintenance	11,445,694	11,028,966
Administrative	2,090,773	1,842,314
Depreciation	1,820,757	3,358,117
Interest and other	882,847	929,074
Total expenses	16,240,071	17,158,471
<b>Change in Net Assets</b>	<b>\$ 18,574,828</b>	<b>\$ 12,872,627</b>

### Road Fund Budgetary Highlights

The Road Commission amended its 2004 budget on three occasions during the year to reflect changes in the level of funding from Michigan Transportation Fund revenues and status changes in budgeted projects. The final budget for revenue was \$1.8 million higher than the original budget primarily due to debt refinancing. The final budget for expenditures was \$1.2 million higher than the original budget primarily due to debt refinancing. The actual 2004 revenues were approximately \$191,000 less than the amended budget due to less federal aid project work. The actual 2004 expenditures were approximately \$540,000 less than the amended budget due to delays in federal aid work as well as the delayed purchase of two tandem dump trucks.

### Capital Assets

The Road Commission had \$157,079,805 in capital assets at the end of the fiscal year. The reason for the \$17.9 million increase from the previous year is twofold: (1) purchases of new equipment, and (2) an increase in infrastructure costs. Infrastructure costs continue to be the largest asset class.



# Washtenaw County Road Commission

## Management's Discussion and Analysis (Continued)

### Capital Assets at Year End (Net of Depreciation) - Governmental Activities

	Governmental Activities	
	December 31	
	2004	2003
		(As restated) (Note 1)
Land	\$ 16,668,153	\$ 16,219,144
Buildings and storage bins	9,875,541	10,134,880
Road equipment	2,628,496	2,676,692
Other equipment	674,136	726,579
Infrastructure	127,233,479	109,413,186
Totals	<u>\$ 157,079,805</u>	<u>\$ 139,170,481</u>

### Economic Factors and Next Year's Budget

The general economic activity expanded during 2004, which resulted in Michigan Transportation Fund (MTF) revenues increasing compared to 2003 receipts. The Michigan Department of Transportation (MDOT) has provided an MTF forecast for 2005 and it anticipates that the Washtenaw County Road Commission will receive \$ 500,000 (3 percent) less MTF revenues in 2005. The revenue decrease is anticipated from the drop-off of one-time vehicle registration fees. The actual 2005 revenues and expenditures will be monitored on a quarterly basis in order to obtain a balanced budget.

Overall, the 2005 budget includes lower expenditures than 2004 primarily due to the Road Commission's inability to contribute toward various federal aid and miscellaneous projects.

Revenues are expected to be lower in 2005 due primarily to the reduction in MTF revenues, less federal aid projects, and a decrease in the number of township agreement projects. No bond reissue is anticipated in 2005.

### Contacting the Road Commission Management

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Washtenaw County Road Commission, 555 N. Zeeb Road, Ann Arbor, MI 48103.

# Washtenaw County Road Commission

## Governmental Funds Balance Sheet/Statement of Net Assets December 31, 2004

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Net Assets
<b>Assets</b>					
Cash and investments (Note 3)	\$ 4,991,851	\$ 13,262	\$ 5,005,113	\$ -	\$ 5,005,113
Receivables:					
Accounts (Note 1)	4,148,869	-	4,148,869	-	4,148,869
Special assessments	-	45,588	45,588	-	45,588
Inventory	924,033	-	924,033	-	924,033
Restricted assets (Note 4)	806,774	-	806,774	-	806,774
Prepaid expenses and other	224,119	-	224,119	-	224,119
Capital assets - Net (Note 5):					
Assets being depreciated	-	-	-	140,411,652	140,411,652
Assets not being depreciated	-	-	-	16,668,153	16,668,153
Total assets	<u>\$ 11,095,646</u>	<u>\$ 58,850</u>	<u>\$ 11,154,496</u>	157,079,805	168,234,301
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 1,234,509	\$ -	\$ 1,234,509	-	1,234,509
Advances (Note 1)	2,396,802	-	2,396,802	-	2,396,802
Accrued liabilities	721,040	-	721,040	86,024	807,064
Deferred revenue (Note 1)	190,500	45,588	236,088	(236,088)	-
Bonds and contracts payable, due within one year (Note 7)	-	-	-	805,000	805,000
Bonds and contracts payable, due in more than one year (Note 7)	-	-	-	5,600,000	5,600,000
Other long-term liabilities (Note 6)	-	-	-	751,057	751,057
Total liabilities	4,542,851	45,588	4,588,439	7,005,993	11,594,432
<b>Fund Balances</b>					
Reserved:					
Inventory	924,033	-	924,033	(924,033)	-
Prepaid expenses	224,119	-	224,119	(224,119)	-
Unspent bond proceeds	806,774	-	806,774	(806,774)	-
Unreserved - Designated for:					
Employee retirement benefits	1,405,922	-	1,405,922	(1,405,922)	-
Capital improvements	809,174	-	809,174	(809,174)	-
Capital outlay	225,000	-	225,000	(225,000)	-
Insurance retention	887,773	-	887,773	(887,773)	-
Construction	1,270,000	-	1,270,000	(1,270,000)	-
Unreserved and undesignated	-	13,262	13,262	(13,262)	-
Total fund balances	6,552,795	13,262	6,566,057	(6,566,057)	-
Total liabilities and fund balances	<u>\$ 11,095,646</u>	<u>\$ 58,850</u>	<u>\$ 11,154,496</u>		
<b>Net Assets</b>					
Investments in capital assets - Net of related debt				151,481,579	151,481,579
Unrestricted				5,158,290	5,158,290
Total net assets				<u>\$ 156,639,869</u>	<u>\$ 156,639,869</u>

# Washtenaw County Road Commission

## Statement of Governmental Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended December 31, 2004

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Activities
<b>Revenue</b>					
State aid - Michigan Transportation Fund	\$ 17,588,119	\$ -	\$ 17,588,119	\$ -	\$ 17,588,119
State trunkline maintenance	1,968,363	-	1,968,363	-	1,968,363
Federal and state sources	7,310,624	-	7,310,624	-	7,310,624
Revenue from local governments	6,204,470	-	6,204,470	190,500	6,394,970
Collections of special assessments	-	46,547	46,547	(46,547)	-
Gain on sale of asset	-	-	-	15,455	15,455
Interest, fees, and other revenue	1,530,051	7,317	1,537,368	-	1,537,368
<b>Total revenue</b>	<b>34,601,627</b>	<b>53,864</b>	<b>34,655,491</b>	<b>159,408</b>	<b>34,814,899</b>
<b>Expenditures/Expenses</b>					
Current:					
Primary construction/Heavy maintenance	14,858,985	-	14,858,985	(14,858,985)	-
Local construction/Heavy maintenance	3,765,812	-	3,765,812	(3,765,812)	-
Primary routine maintenance	5,127,976	-	5,127,976	-	5,127,976
Local routine maintenance	5,681,001	-	5,681,001	-	5,681,001
State maintenance	2,048,299	-	2,048,299	-	2,048,299
Equipment and capital outlay	1,085,316	-	1,085,316	(1,085,316)	-
Less equipment rental and other charged to other expenditures	(1,411,582)	-	(1,411,582)	-	(1,411,582)
Administrative	2,032,981	-	2,032,981	57,792	2,090,773
Other services	510,676	-	510,676	-	510,676
Depreciation expense	-	-	-	1,820,757	1,820,757
Debt service:					
Principal retirement	770,000	70,000	840,000	(840,000)	-
Interest and other charges	262,163	6,278	268,441	103,730	372,171
<b>Total expenditures</b>	<b>34,731,627</b>	<b>76,278</b>	<b>34,807,905</b>	<b>(18,567,834)</b>	<b>16,240,071</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(130,000)</b>	<b>(22,414)</b>	<b>(152,414)</b>	<b>18,727,242</b>	<b>18,574,828</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds from refunding bonds	3,535,000	-	3,535,000	(3,535,000)	-
Payment to refunding bond escrow agent	(3,495,470)	-	(3,495,470)	3,495,470	-
<b>Total other financing sources (uses)</b>	<b>39,530</b>	<b>-</b>	<b>39,530</b>	<b>(39,530)</b>	<b>-</b>
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures</b>	<b>(90,470)</b>	<b>(22,414)</b>	<b>(112,884)</b>	<b>18,687,712</b>	<b>18,574,828</b>
<b>Fund Balances/Net Assets - January 1, 2004 - As restated (Note 1)</b>	<b>6,643,265</b>	<b>35,676</b>	<b>6,678,941</b>	<b>131,386,100</b>	<b>138,065,041</b>
<b>Fund Balances/Net Assets - December 31, 2004</b>	<b>\$ 6,552,795</b>	<b>\$ 13,262</b>	<b>\$ 6,566,057</b>	<b>\$ 150,073,812</b>	<b>\$ 156,639,869</b>

The Notes to Financial Statements are  
an Integral Part of these Statements.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 1 - Significant Accounting Policies

The Road Commission of the County of Washtenaw, Michigan (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in the County of Washtenaw, Michigan. The Road Commission's financial statements will be included in the basic financial statements of the County of Washtenaw, Michigan as a discretely presented component unit.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Effective January 1, 2001, the Road Commission implemented the general provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, with the exception of the retroactive reporting of infrastructure.

#### Prior Period Adjustment

**GASB No. 34** - Effective January 1, 2004, the Road Commission has elected to implement the retroactive reporting of infrastructure, as provided by the provisions of Governmental Accounting Standards Board Statement No. 34. As a result, the Road Commission's financial statements have changed to include approximately \$81 million in net infrastructure assets (roads, bridges, etc. from 1980 to 2000) not previously accounted for by the Road Commission. The net assets as of December 31, 2003 have been restated as follows:

Net assets - As previously reported	\$ 57,124,159
Retroactive reporting of infrastructure	<u>80,940,882</u>
Net assets - December 31, 2003 - As restated	<u>\$ 138,065,041</u>

#### Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds, and have been separately stated in conjunction with the government-wide financial statements.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 1 - Significant Accounting Policies (Continued)

Major individual governmental funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The Road Fund is the Road Commission's only major governmental fund. The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

The Subdivision Improvements Fund (a nonmajor governmental fund) is used to account for the construction and financing of public improvements provided in benefiting districts that are to be paid, at least in part, from an assessment against the benefited property.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 1 - Significant Accounting Policies (Continued)

**Cash and Investments** - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

**Accounts Receivable** - Accounts receivable are primarily amounts due from other units of government. The Road Commission has not recorded a provision for doubtful accounts for accounts receivable since it is the opinion of management that those receivables are collectible in full.

**Advances and Deferred Revenue** - Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of advances and deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Advances	\$ -	\$ 2,396,802
Accounts receivable	190,500	-
Special assessments receivable	<u>45,588</u>	<u>-</u>
Total	<u>\$ 236,088</u>	<u>\$ 2,396,802</u>

**Inventory and Prepaid Items** - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 1 - Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Machinery and equipment	5 to 20 years
Roads	5 to 30 years
Other infrastructure	12 to 50 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report designations of fund balance for amounts that represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to financial statements.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 6,566,057
Capital assets used in governmental activities are not financial resources and are not reported in the funds	157,079,805
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	45,588
Local and other receivables not collected within 60 days of year end are not available to pay for current year expenditures	190,500
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(6,405,000)
Compensated absences and provision for workers' compensation uninsured losses are not reported in the funds	(751,057)
Accrued interest payable is not reported in the funds	<u>(86,024)</u>
Government-wide net assets	<u>\$ 156,639,869</u>



# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balances - Total governmental funds	\$ (112,884)
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	17,889,356
In the statement of activities, only the gain on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the asset sold	15,455
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	(46,547)
Proceeds from refunding bonds and payment to refunding bond escrow agent are reported as other financing sources in the governmental funds, but not in the statement of activities	(175,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	840,000
Changes in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(57,792)
Interest expense is recorded in the statement of activities when a liability is incurred; they are reported in the funds only when payment is due	31,740
In the governmental funds, state and local revenues not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	<u>190,500</u>
Change in net assets of governmental activities	<u><u>\$ 18,574,828</u></u>

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 3 - Cash and Investments

The Road Commission's cash and investments of \$5,811,887 at December 31, 2004 are classified by Government Accounting Standards Board Statement No. 3 in the following categories:

Petty cash or cash on hand	\$ 400
Investments in bank investment pools and County-pooled investments	5,004,713
Restricted assets (Note 4)	<u>806,774</u>
Total	<u>\$ 5,811,887</u>

#### Investments

The Road Commission is authorized by Michigan Compiled Laws Section 129.91 to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The Road Commission's investments during the year consisted of bank investment pools and County pooled investments. There was \$5,811,487 invested in bank investment pools and County pooled investments.

Investments are normally categorized to give an indication of the level of risk assumed by the Road Commission; however, bank investment pools and County pooled investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Road Commission believes that the investments in these funds comply with the investment authority noted above. The bank investment pools are regulated by the Michigan Banking Act and the fair value of the position in the pool is the same as the value of the pool shares.

### Note 4 - Restricted Assets

Restricted assets in the Road Fund at December 31, 2004 consist of cash and investments in the amount of \$806,774. These assets, representing unspent bond proceeds, are restricted for construction.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 5 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance - As restated (Note 1)	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land and land improvements	\$ 16,219,144	\$ 449,009	\$ -	\$ 16,668,153
Capital assets being depreciated:				
Buildings and storage bins	12,765,118	55,693	41,592	12,779,219
Road equipment	11,529,537	897,162	85,476	12,341,223
Other equipment	1,691,535	97,336	-	1,788,871
Brine wells and gravel pits	136,386	-	-	136,386
Infrastructure	<u>187,938,083</u>	<u>18,228,912</u>	<u>-</u>	<u>206,166,995</u>
Subtotal	214,060,659	19,279,103	127,068	233,212,694
Less accumulated depreciation for:				
Buildings and storage bins	(2,630,238)	(312,677)	(39,237)	(2,903,678)
Road equipment	(8,852,845)	(945,167)	(85,285)	(9,712,727)
Other equipment	(964,956)	(149,779)	-	(1,114,735)
Brine wells and gravel pits	(136,386)	-	-	(136,386)
Infrastructure	<u>(78,524,897)</u>	<u>(408,619)</u>	<u>-</u>	<u>(78,933,516)</u>
Subtotal	<u>(91,109,322)</u>	<u>(1,816,242)</u>	<u>(124,522)</u>	<u>(92,801,042)</u>
Net capital assets being depreciated	<u>122,951,337</u>	<u>17,462,861</u>	<u>2,546</u>	<u>140,411,652</u>
Net capital assets	<u>\$ 139,170,481</u>	<u>\$ 17,911,870</u>	<u>\$ 2,546</u>	<u>\$ 157,079,805</u>

### Note 6 - Risk Management and Other Long-term Liabilities

#### Insurance Programs

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for health care claims and participates in the Michigan County Road Commission Self-insurance Pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 6 - Risk Management and Other Long-term Liabilities (Continued)

The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

#### Compensated Absences

The compensated absences liability represents the estimated liability to be paid employees under the Road Commission's leave policies. Under the Road Commission's policy, union employees earn sick and vacation time, while nonunion employees earn annual leave based on time of service with the Road Commission. The estimated compensated absence liability as of December 31, 2004 is \$751,057.

### Note 7 - Long-term Debt

#### Outstanding Debt

The following is a summary of debt outstanding of the Road Commission as of December 31, 2004:

	Interest Rate	Maturing Through	Principal Outstanding
1995 special assessment bonds	5.15%-5.25%	2005	\$ 25,000
1995 special assessment bonds	5.15%-5.25%	2005	45,000
2000 Michigan Transportation Fund Notes, Series 2000	5.0%-6.75%	2009	475,000
2002 Michigan Transportation Fund Notes, Series 2002	3.75%-4.5%	2012	2,400,000
Washtenaw County Refunding bonds	2.0%-3.5%	2013	<u>3,460,000</u>
Total bonded and other contractual indebtedness			<u>\$ 6,405,000</u>

The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed for the cost of the improvement. At December 31, 2004, the Road Commission has \$13,262 set aside in the Subdivision Improvements Fund for repayment of these bonds. In addition, there is approximately \$46,000 of special assessments receivable in the future; the amount of receivables delinquent at December 31, 2004 is not significant.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 7 - Long-term Debt (Continued)

The Washtenaw County Building Authority Refunding debt represents bonds that were sold on behalf of the Road Commission for the construction of Yard 2.

The 2000 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes will be used to fund improvements on county highways in Scio Township.

The 2002 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes will be used to fund improvements on subdivisions in Ypsilanti Township.

#### Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended December 31, 2004:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
1995 special assessment bonds	\$ 50,000	\$ -	\$ 25,000	\$ 25,000	\$ 25,000
1995 special assessment bonds	90,000	-	45,000	45,000	45,000
Washtenaw County Building Authority bonds	3,660,000	-	3,660,000 *	-	-
2000 Michigan Transportation Fund Notes, Series 2000	570,000	-	95,000	475,000	95,000
2002 Michigan Transportation Fund Notes, Series 2002	2,700,000	-	300,000	2,400,000	300,000
2004 Washtenaw County Refunding bonds	-	3,535,000	75,000	3,460,000	340,000
Total bonded and other contractual indebtedness	<u>\$ 7,070,000</u>	<u>\$ 3,535,000</u>	<u>\$ 4,200,000</u>	<u>\$ 6,405,000</u>	<u>\$ 805,000</u>

\* During the year, the Road Commission made the normally scheduled payment of principal in the amount of \$300,000. The remaining bonds totaling \$3,360,000 were advance refunded prior to the end of the fiscal year.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 7 - Long-term Debt (Continued)

#### Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of December 31, 2004, except liabilities for compensated absences, are as follows:

Fiscal Years Ending December 31	Principal	Interest	Total
2005	\$ 805,000	\$ 225,538	\$ 1,030,538
2006	755,000	200,150	955,150
2007	775,000	174,878	949,878
2008	770,000	148,733	918,733
2009	780,000	121,715	901,715
2010-2013	<u>2,520,000</u>	<u>221,375</u>	<u>2,741,375</u>
Total	<u>\$ 6,405,000</u>	<u>\$ 1,092,389</u>	<u>\$ 7,497,389</u>

#### Interest

Interest expense paid by the Road Commission for the year ended December 31, 2004 approximated \$229,000.

#### Advance Refunding

During the year, the Road Commission issued \$3,535,000 in county refunding bonds with an average interest rate of 2.7 percent; the proceeds were used to advance refund \$3,360,000 of outstanding building authority bonds with an average interest rate of 4.6 percent. The net proceeds of \$3,495,470 (after payment of \$39,530 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the governmental activities. The advance refunding reduced total debt service payments over the next nine years by approximately \$217,000, which represents an economic gain of approximately \$188,000.

# Washtenaw County Road Commission

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## Notes to Financial Statements December 31, 2004

### Note 8 - Stewardship, Compliance and Accountability

The Road Commission is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the Special Revenue Funds. The Road Fund and the Subdivision Improvements Fund are Special Revenue Funds.
- b. Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the Board of Road Commissioners is included in the required supplementary information. A comparison of actual results of operations to the Subdivision Improvement Fund budget as adopted by the Board of Road Commissioners is available at the Road Commission offices for inspection.

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In November, the managing director of the Road Commission submits to the Board of County Road Commissioners a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain citizen comments.
3. During December, the budget is legally enacted by the passage of a resolution.
4. The managing director is authorized to transfer budgeted amounts between line items within an activity category, exclusive of certain exceptions, which require the approval of the Board of County Road Commissioners. These accepted items and any revisions that alter the total expenditures of any budgeted activity must be approved by the Board.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 8 - Stewardship, Compliance, and Accountability (Continued)

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America with the exception that proceeds from long-term debt and payments to refunding bond escrow agent were reflected in the "revenue" and "expenditure" categories, respectively, rather than as "other financing sources (uses)."

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Road Commission incurred expenditures that were in excess of amounts budgeted, as follows:

	Amended Budget	Actual
Primary routine maintenance	\$ 5,073,471	\$ 5,127,976
Local routine maintenance	5,539,827	5,681,001
Administrative	1,870,000	2,032,981

The unfavorable variance for both the primary and local routine maintenance was caused by higher than anticipated distributive costs. The unfavorable variance for administrative costs was caused by unanticipated depreciation adjustments.

### Note 9 - Postemployment Benefits

The Road Commission provides health care benefits, dental benefits, and a death benefit to all full-time employees upon retirement, in accordance with labor contracts. Currently, 153 retirees and/or surviving spouses are eligible for health care and other benefits. The Road Commission includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The Road Commission purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care and other benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$749,000.



# Washtenaw County Road Commission

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## Notes to Financial Statements December 31, 2004

### **Note 9 - Postemployment Benefits (Continued)**

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care expenses over the working life of the employee, rather than at the time the health care expenses are paid. The pronouncement is effective for the year ending December 31, 2008.

### **Note 10 - Defined Benefit Pension Plan**

**Plan Description** - The Road Commission participates in the Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers nearly all employees of the Road Commission. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the MERS for these employees was established by resolution of the Road Commission Board.

**Annual Pension Cost** - For the year ended December 31, 2004, the Road Commission's annual pension cost of \$633,502 for the plan was equal to the Road Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.7 percent per year, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 30 years.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2004

### Note 10 - Defined Benefit Pension Plan (Continued)

Additional pension plan information is as follows:

	Fiscal Years Ended December 31		
	2002	2003	2004
Annual pension cost (APC)	\$ 213,485	\$ 610,255	\$ 633,502
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2001	2002	2003
Actuarial value of assets	\$ 22,474,326	\$ 22,566,839	\$ 23,848,237
Actuarial Accrued Liability (AAL) (entry age)	\$ 23,152,354	\$ 27,539,205	\$ 31,276,579
Underfunded AAL	\$ 678,028	\$ 4,972,366	\$ 7,428,342
Funded ratio	97%	82%	76%
Covered payroll	\$ 5,761,249	\$ 6,054,035	\$ 6,790,857
UAAL as a percentage of covered payroll	12%	82%	109%

### Note 11 - Construction in Process

Estimated future contract cost obligations related to completion of Road Fund construction projects in process at December 31, 2004, net of estimated revenue from federal aid and contributions from participating communities, total approximately \$1,300,000. The total remaining cost of these uncompleted projects will exceed the above estimated future contract costs due to inspection costs and other noncontracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will not be material in amount.

## **Required Supplementary Information**

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# Washtenaw County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>				
State aid - Michigan Transportation Fund	\$ 17,400,000	\$ 17,500,000	\$ 17,588,119	\$ 88,119
State trunkline maintenance	2,000,000	1,985,000	1,968,363	(16,637)
Federal and state sources	9,160,000	7,703,000	7,310,624	(392,376)
Revenue from local governments	7,038,000	5,996,000	6,204,470	208,470
Interest, fees, and other revenue	860,000	5,144,000	5,065,051	(78,949)
Total revenue	36,458,000	38,328,000	38,136,627	(191,373)
<b>Expenditures</b>				
Current:				
Primary construction/heavy maintenance	15,500,532	15,253,619	14,858,985	394,634
Local construction/heavy maintenance	5,608,541	3,819,083	3,765,812	53,271
Primary routine maintenance	5,224,015	5,073,471	5,127,976	(54,505)
Local routine maintenance	5,463,912	5,539,827	5,681,001	(141,174)
State maintenance	2,000,000	2,065,000	2,048,299	16,701
Equipment and capital outlay - Net of depreciation credits	230,000	49,000	(326,266)	375,266
Administrative	1,927,000	1,870,000	2,032,981	(162,981)
Other services	560,000	530,000	510,676	19,324
Debt service:				
Principal retirement	695,000	770,000	770,000	-
Interest and other charges	312,215	3,797,633	3,757,633	40,000
Total expenditures	37,521,215	38,767,633	38,227,097	540,536
<b>Excess of Expenditures Over Revenue</b>	(1,063,215)	(439,633)	(90,470)	349,163
<b>Fund Balance - January 1, 2004</b>	6,643,265	6,643,265	6,643,265	-
<b>Fund Balance - December 31, 2004</b>	<u>\$ 5,580,050</u>	<u>\$ 6,203,632</u>	<u>\$ 6,552,795</u>	<u>\$ 349,163</u>

## **Other Supplementary Information**

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# Washtenaw County Road Commission

## Other Supplementary Information Analysis of Changes in Road Fund Balance Year Ended December 31, 2004

	Primary Road	Local Road	County Road Commission	Total
<b>Revenue</b>				
State aid - Michigan Transportation Fund	\$ 13,021,882	\$ 4,566,237	\$ -	\$ 17,588,119
State trunkline maintenance	1,968,363	-	-	1,968,363
Federal and state sources	7,288,184	20,546	1,894	7,310,624
Revenue from local governments	2,889,910	3,314,560	-	6,204,470
Interest, fees, and other revenue	595,157	203,333	731,561	1,530,051
Total revenue	25,763,496	8,104,676	733,455	34,601,627
<b>Expenditures</b>				
Current:				
Primary construction/heavy maintenance	14,858,985	-	-	14,858,985
Local construction/heavy maintenance	-	3,765,812	-	3,765,812
Primary routine maintenance	5,127,976	-	-	5,127,976
Local routine maintenance	-	5,462,297	218,704	5,681,001
State maintenance	2,048,299	-	-	2,048,299
Equipment and capital outlay - Net of depreciation credits	79,885	(13,802)	(392,349)	(326,266)
Administrative	1,390,827	642,154	-	2,032,981
Other services	-	-	510,676	510,676
Debt service:				
Principal retirement	95,000	300,000	375,000	770,000
Interest and other charges	29,375	114,225	118,563	262,163
Total expenditures	23,630,347	10,270,686	830,594	34,731,627
<b>Excess of Revenue Over (Under) Expenditures</b>	2,133,149	(2,166,010)	(97,139)	(130,000)
<b>Other Financing Sources (Uses)</b>				
Bond proceeds	-	-	3,535,000	3,535,000
Payment to refunding bond escrow agent	-	-	(3,495,470)	(3,495,470)
Operating transfers in (out)	(2,166,010)	2,166,010	-	-
Total other financing sources (uses)	(2,166,010)	2,166,010	39,530	39,530
<b>Excess of Expenditures and Other Financing Uses Over Revenue and Other Financing Sources</b>	(32,861)	-	(57,609)	(90,470)
<b>Fund Balance - January 1, 2004</b>	6,573,820	-	69,445	6,643,265
<b>Fund Balance - December 31, 2004</b>	<u>\$ 6,540,959</u>	<u>\$ -</u>	<u>\$ 11,836</u>	<u>\$ 6,552,795</u>